

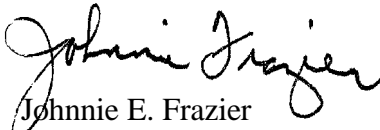


UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 19, 1998

MEMORANDUM FOR: James L. Price
Acting Under Secretary for Economic Affairs

FROM:


Johnnie E. Frazier
Acting Inspector General

SUBJECT: Audit of BEA's and ESA's FY 1997 Financial Statements
Audit Report No. FSC-10113-8-0001

The attached report presents the results of the audit of the Bureau of Economic Analysis (BEA) and Economic and Statistics Administration (ESA) Consolidated Statement of Financial Position, as of September 30, 1997, and the related Consolidated Statement of Operations and Changes in Net Position for the year then ended. Also provided are reports on BEA's and ESA's internal control structure and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by BEA and ESA.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited consolidated financial statement must be prepared covering all accounts and activities for each office, bureau, and activity of the Department. To facilitate the consolidated audit process, the independent certified public accounting firm of Urbach Kahn & Werlin PC (UKW) was contracted to audit BEA's and ESA's FY 1997 Consolidated Financial Statements. The Office of Inspector General (OIG) defined the audit scope, oversaw the process of selecting the contractor, and oversaw the performance and delivery of the audit.

In the opinion of UKW, the financial statements present fairly, in all material respects, the financial position of BEA and ESA as of September 30, 1997, and the results of their operations and changes in net position for the year then ended, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. This is a comprehensive basis of accounting other than generally accepted accounting principles.

Financial statement audits are a key gauge for measuring the progress of a bureau in meeting the goals and objectives of the CFO Act. The results of the UKW audit clearly indicate that significant improvements have been made to BEA's and ESA's financial and accounting practices over the past years. The initiatives taken by BEA, ESA and NIST, its provider of accounting services, enabled UKW to issue an unqualified opinion on BEA's and ESA's consolidated financial statements as of September 30, 1997.

While the UKW report on internal controls contains no material weaknesses, it identified one reportable condition, Controls Surrounding the Financial Accounting and Reporting System (FARS) Need Improvement. As a result of a general controls review performed by the OIG at the Office of Computer Services (OCS), several issues were identified relating to the controls surrounding the mainframe system on which the FARS application is processed. UKW considered the issues identified to be a reportable condition to BEA and ESA because FARS processes the financial information used in preparing BEA's and ESA's financial statements. Since BEA and ESA management are not responsible for the general controls surrounding FARS, recommendations were directed to OCS management in the OIG Report No. FSD-10021-8-0001, *Information Systems General Controls Review of OCS*.

UKW identified one instance of material non-compliance in their report on compliance with laws and regulations. Under the Federal Financial Management Improvement Act (FFMIA) of 1996, the auditors are required to report on whether the bureau's financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Government Standard General Ledger at the transaction level. BEA's and ESA's core financial management system does not comply with certain systems requirements. The National Institute of Standards and Technology's (NIST) Office of Financial Management performs a significant portion of the financial transaction processing and reporting for BEA and ESA. NIST's Financial Accounting and Reporting System (FARS) does not maintain sufficient commonality of data elements and transaction processing sufficient to ensure timely, accurate and effective financial reporting, as required by Federal guidance.

Our office reviewed a draft version of BEA and ESA's overview to its FY 1997 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act of 1993, the legislation that requires government entities to collect and report information on their performance in meeting goals and objectives. We shared our observations and recommendations in a January 12, 1998, discussion paper and a subsequent meeting with BEA and ESA management. Management was responsive to our comments, incorporating additional language (planned performance measures by goal and objective) to the FY 1997 overview, while stating additional improvements will be made for FY 1998 and subsequent overviews.

The overview (1) identifies that BEA and ESA support two of the three themes contained in the Department's *Strategic Plan* (including an identification of planned output and outcome performance measures); (2) provides detailed discussion of BEA and ESA's activities and accomplishments during FY 1997; (3) includes performance indicators of workload, output, and dissemination; and (4) discusses the entity's financial position and results. However, BEA and ESA should improve its discussion of results by strengthening reported performance measures (e.g., increased outcome and cost-effectiveness measures) and improving the presentation of information to facilitate trend analyses and assessment of the bureau's success or failure to achieve performance targets.

In order to improve the usefulness of the overview to decision-makers, such as OMB and the Congress, we encourage BEA and ESA to address the observations contained in our discussion paper. Also, continued improvement will be needed for the overview to be consistent with OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, to “provide a clear and concise description of the reporting entity and its mission, activities, program and financial results, and financial condition.” The OIG realizes that improving the overview is an iterative process and encourages BEA and ESA to strengthen next year’s discussion of the bureau’s results.

We recognize BEA’s and ESA’s commitment to preparing high quality and meaningful financial statements. To continue to meet this objective, it will be necessary that the accounting requirements set forth in OMB Bulletin 97-01 are taken into consideration for preparation of the fiscal year 1998 financial statements. Implementation of OMB Bulletin 97-01 poses tremendous challenges for various reasons. In particular, this bulletin requires six statements to be prepared as compared to OMB Bulletin 94-01, which required two. One of the six statements, the Statement of Net Cost, requires BEA and ESA to report their costs by sub-organizations and programs, which should be based on the missions and outputs describes in BEA’s and ESA’s GPRA strategic and annual plans, their budget structures, and the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*. As the federal government has not been required previously to report information in such a manner for financial and budgetary purposes, BEA and ESA will need to place appropriate emphasis on implementation of OMB Bulletin 97-01.

If you wish to discuss the contents of this report, please contact George E. Ross, Assistant Inspector General for Auditing, on (202) 482-1934, or Tom McCaughey, Director, Financial Statement Contract Audits Division, on (703) 603-0301. We appreciate the cooperation and courtesies extended by BEA and ESA during the audit.

cc: W. Scott Gould
Chief Financial Officer and
Assistant Secretary for Administration

J. Steven Landefeld, Director
Bureau of Economic Analysis

John McGuffin, Comptroller
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